

Energy Situation Analysis Report

Last Updated: November 5, 2002

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Latest Oil Market Developments

West Texas Intermediate (WTI) front month (December) crude oil futures on the New York Mercantile Exchange (NYMEX) fell 18 cents per barrel to \$26.95 per barrel on Monday, November 4, on reports of increased OPEC quota leakage and an anticipation in the market of increased U.S. crude oil stocks. The Alaska Pipeline remained out of operation Tuesday, as engineers from the Alyeska Pipeline Service Company checked for damage from Sunday's earthquake. [more...](#)

Latest U.S. Weekly EIA Petroleum Information

The U.S. average retail price for regular gasoline rose last week, increasing by 0.4 cent per gallon as of November 4 to end at 144.8 cents per gallon. This price is still 24.2 cents per gallon higher than last year. This is the fourth time in the last five weeks prices have risen during a season of normally decreasing gasoline prices. [more...](#)

World Oil Market Highlights

According to fourth quarter 2002 estimates, the world (excluding Iraq) holds about 5 million barrels per day of excess oil production capacity that could be brought online, almost all of which lies in OPEC countries. [more...](#)

Latest U.S. Weekly Natural Gas Information

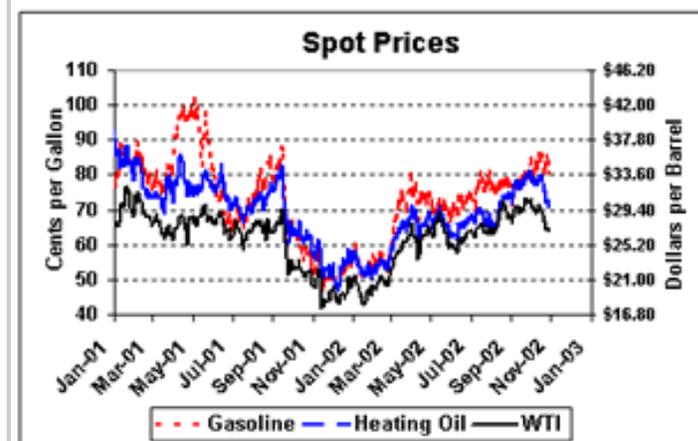
Spot prices for natural gas at most major market locations moved down between 10 to 20 cents per MMBtu on Monday. At the Henry Hub, natural gas traded below \$4.00 per MMBtu for the first time in 4 weeks as prices averaged \$3.94 yesterday (Monday). Contributing to this price decrease were the moderating temperatures in the Midwest and the Northeast along with recent price declines at the NYMEX futures market. [more...](#)

Latest U.S. Coal Information

Energy Prices*

Petroleum Futures	11/4/02	11/1/02	Change
WTI (\$/Bbl)	26.95	27.13	-0.18
Gasoline (c/gallon)	77.43	76.45	+0.98
Heating Oil (c/gallon)	73.33	74.16	-0.83
Natural Gas (\$/MMBtu)			
Henry Hub	3.94	4.06	-0.12
California	3.93	4.07	-0.14
New York City	4.34	4.52	-0.18
Electricity (\$/Megawatthour)			
COB	39.15	42.75	-3.60
PJM West	36.09	37.20	-1.11
NEPOOL	49.00	51.00	-2.00
Average	39.52	41.54	-2.02

[*Definitions](#)

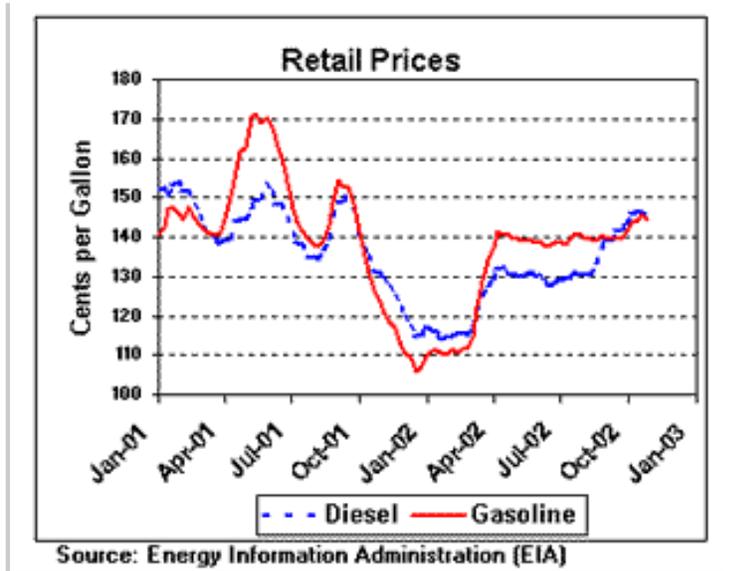


Source: Closing quote as reported by Reuters News Service

The average spot coal prices tracked by EIA, after strengthening slightly for the week ended October 4, have stalled at or around static levels. Coal prices show little movement and lacking clear direction as markets-both spot and over-the-counter-show low interest and little activity. Compared to peak prices in summer 2001, Central and Northern Appalachian coal prices are down by about \$18.50 and \$12.00 per short ton, respectively. [more...](#)

Latest U.S. Electricity Information

Electricity prices in the Western United States decreased over the past two trading days as a return to warmer weather caused customers to reduce their demand. At COB, prices fell \$6.39 per megawatthour between October 31 and November 4. At Mid-Columbia, a benchmark for the Northwest, prices also decreased \$7.34 per megawatthour during the same period. [more...](#)



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Latest Oil Market Developments

(updated November 5, 2002)

West Texas Intermediate (WTI) front month (December) crude oil futures on the New York Mercantile Exchange (NYMEX) fell 18 cents per barrel to \$26.95 per barrel on Monday, November 4, on reports of increased OPEC quota leakage and an anticipation in the market of increased U.S. crude oil stocks. The closure of the Alaska Pipeline after Sunday's earthquake in Alaska had added some support to the market in early trading Monday, but prices fell back in afternoon trading. Prices for NYMEX crude oil were lower in early trading on Tuesday, November 5.

Overall, crude oil prices on the NYMEX are down \$3.88 per barrel from the near-term high closing price reached on October 1. This drop in crude oil prices has been attributed to growing supplies from OPEC and to an easing of traders' concerns over the imminence of an attack on Iraq as discussions continue at the United Nations. This has contributed to a reduction in the so-called "war premium." U.S. inventories of crude oil, gasoline, and distillate fuel all remain at the lower end of the normal range for this time of year.

Topics affecting **world oil markets** include:

- The Alaska Pipeline remained out of operation Tuesday, as engineers from the Alyeska Pipeline Service Company checked for damage from Sunday's earthquake. The company is expected to announce later in the day when it will be able to resume operation of the pipeline.
- According to press reports, the U.S. is expected to submit a new resolution on Iraq to the United Nations Security Council by Wednesday. The new draft would include changes reflecting recent negotiations with France, Russia, and other Security Council members.
- OPEC President Rilwanu Lukman called on Tuesday for OPEC members to show greater discipline in following OPEC production quotas. "It is well known that some of our member countries have substantial excess capacity. That capacity should not be used to flood the market," Lukman said at a conference in London.
- Iraq's exports under the United Nations "Oil-for-Food" program surged to 2.7 million barrels per day last week, according to industry sources. Iraq's exports have been rising since it dropped its demands for illegal "surcharges" on its export sales under the program.
- As of November 5, 2002, the [U.S. Strategic Petroleum Reserve \(SPR\)](#) contained 588.9 million barrels of oil. The SPR has a maximum drawdown capability of 4.3 million bbl/d for 90 days, with oil beginning to arrive in the marketplace 15 days after a presidential decision to initiate a drawdown. The SPR drawdown rate declines to 3.2 million bbl/d from days 91-120, to 2.2 million bbl/d for days 121-150, and to 1.3 million bbl/d for days 151-180.

File last modified: November 5, 2002

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Latest U.S. Weekly EIA Petroleum Information

(last complete update - October 31, 2002)

Petroleum Inventories

U.S. commercial crude oil inventories (excluding those in the Strategic Petroleum Reserve) rose by 0.9 million barrels last week, the third consecutive weekly increase. However, nationally, they remain about 25 million barrels below the level last year at this time. In PADD II (Midwest), crude oil inventories remained below 55 million barrels once again, a level close to the lowest level seen since at least late 1989. Distillate fuel inventories fell by 1.8 million barrels, with a small increase in low-sulfur distillate fuel (diesel fuel) more than offset by a decline in high-sulfur distillate fuel (heating oil). Distillate fuel inventories are now below the lower limit of the normal range for this time of year. Motor gasoline inventories dropped by 1.1 million barrels, and are just above the lower limit of the normal range for this time of year.

U.S. inventories of propane continued their recent slide with a weekly stock draw measuring nearly 1.4 million barrels, and ended the week of October 25, 2002 at an estimated 66.5 million barrels. Since October 1, 2002, U.S. inventories of propane have fallen by 4.7 million barrels. Unseasonable cold weather is partly due to the sharp slide in inventories as propane marketers begin to move supplies closer to the areas of final consumption. Although U.S. inventories are falling faster than would typically be expected at this time of year, inventories continue to track within the middle of the average range. Regional stock draws were evenly distributed between the Midwest and Gulf Coast regions last week with similar declines of roughly 0.6 million barrels, while East Coast inventories posted a more modest 0.1 million barrel draw during this same period. Comparisons with respect to average ranges show East Coast and Gulf Coast inventories near the upper limit of the range while inventories in the Midwest continue to track at the lower limit of the average range for this period.

Petroleum Imports

U.S. crude oil imports last week averaged 9.0 million barrels per day, down nearly 1.0 million barrels per day from the very high level seen in the previous week. Even including one week in which they were reduced due to Hurricane Lili, crude oil imports have averaged 9.2 million barrels per day over the last four weeks, or nearly 100,000 barrels per day less than averaged during the same four-week period last year. Total motor gasoline imports (including both finished gasoline and gasoline blending components) averaged 800,000 barrels per day last week, while distillate fuel imports remained relatively high, averaging over 300,000 barrels per day.

Monthly data on the sources of U.S. crude oil imports in August 2002 was released recently and it shows that four countries imported more than 1.4 million barrels per day of crude oil to the United States that month. The top sources of U.S. oil imports in August 2002 were Canada (1.537 million barrels per day), Venezuela (1.514 million barrels per day), Mexico (1.475 million barrels per day), and Saudi Arabia (1.411 million barrels per day). Rounding out the top ten sources, in order, were Nigeria (0.792 million barrels per day), United Kingdom (0.480 million barrels per day), Norway (0.402 million barrels per day), Iraq (0.246 million barrels per day), Colombia (0.217 million barrels per day), and Angola (0.211 million barrels per day). Of the 9.545 million barrels per day of crude oil imported into the United States during the month of August 2002, the top four countries accounted for 62% of these imports, while the top ten sources accounted for nearly 87% of all U.S. crude oil imports. Iraqi crude oil imports were the 2nd lowest amount since May 1998 (June 2002 was the only recent month in which Iraq imported less), while Russian crude oil imports averaged 0.100 million barrels per day, ranking 14th for the month, but the 2nd largest amount since June 1994 (only exceeded by the amount imported in May 2002).

Refinery Inputs and Production

U.S. crude oil refinery inputs averaged 14.7 million barrels per day during the week ending October 25, an increase of nearly 500,000 barrels per day from the previous week. Crude oil refinery inputs in PADD III (Gulf Coast) increased by 300,000 barrels per day, while in PADD II they increased by nearly 200,000 barrels per day. As a result of the increase in crude oil refinery inputs, refinery production for motor gasoline, distillate fuel, and jet fuel increased substantially last week.

Petroleum Demand

Total product supplied over the last four-week period averaged 19.4 million barrels per day, or about 1.6 percent less than the level last year. Over the last four weeks, motor gasoline demand is up 3.2 percent, kerosene-jet fuel demand is up 1.7 percent. Distillate fuel demand is down 1.4 percent compared to the same four-week period last year, even with last week's demand averaging 4.1 million barrels per day.

Spot Prices (last updated November 5, 2002)

The average world crude oil price on November 1, 2002 was \$24.53 per barrel, down \$1.29 from the previous week but \$5.90 per barrel more than last year. The spot price for conventional gasoline in the New York Harbor was 85.25 cents per gallon, down 0.20 cent per gallon from last week and 32.97 cents higher than a year ago. The spot price for No. 2 heating oil in the New York Harbor was 73.90 cents per gallon, 1.85 cents per gallon higher than last week and 16.90 cents per gallon more than last year.

Retail Gasoline and Diesel Fuel Prices Fall Back Last Week (last updated November 5, 2002)

The U.S. average retail price for regular gasoline rose last week, increasing by 0.4 cent per gallon as of November 4 to end at 144.8 cents per gallon. This

price is still 24.2 cents per gallon higher than last year. This is the fourth time in the last five weeks prices have risen during a season of normally decreasing gasoline prices.

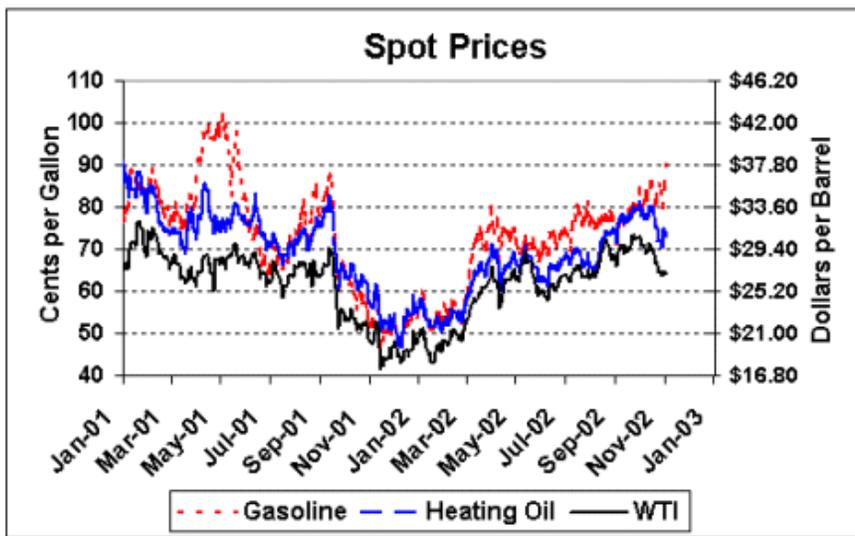
Retail diesel fuel prices fell last week for the second week in a row, decreasing by 1.4 cents per gallon to a national average of 144.2 cents per gallon as of November 4. Prices are expected to remain at these levels or higher throughout the season in part due to low distillate fuel inventories. Retail diesel prices were down throughout the country, with the largest price decrease occurring on the Gulf Coast, which saw the price fall by 2.3 cents per gallon to end at 139.4 cents per gallon. There was a price increase seen in New England, where prices gained 0.1 cent to end at 149.7 cents per gallon.

Retail Heating Fuels Prices Show Slight Upward Movement

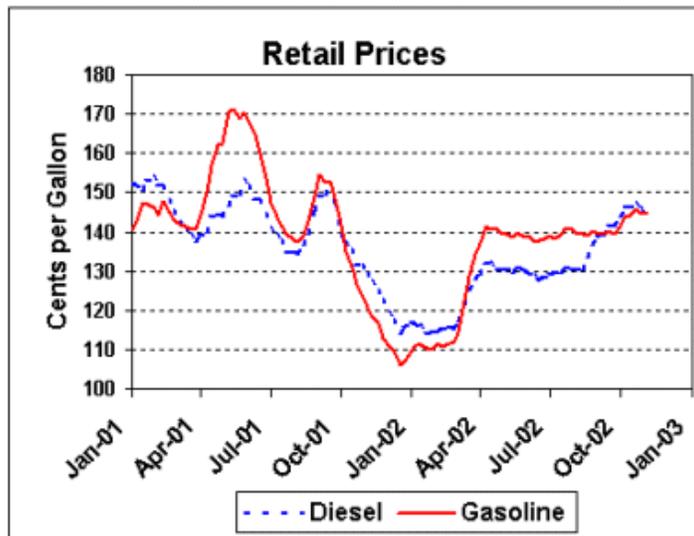
Residential heating oil and propane prices showed slight increases for the period ending October 28, 2002. The average residential heating oil price was at 127.3 cents per gallon, up 0.2 cent per gallon, while the average residential propane price increased 0.7 cent per gallon from 113.5 to 114.2 cents per gallon. Heating oil prices are 4.6 cents per gallon higher than last year at this time while residential propane prices are 0.5 cent per gallon higher than one year ago. Wholesale heating oil prices decreased 5.1 cents per gallon, to 82.0 cents per gallon. Wholesale propane prices rose slightly from 54.0 to 54.4 cents a gallon, up 0.4 cent per gallon.

U.S. Petroleum Prices

(updated November 5, 2002)



Source: Closing quote as reported by Reuters News Service



Source: Energy Information Administration (EIA)

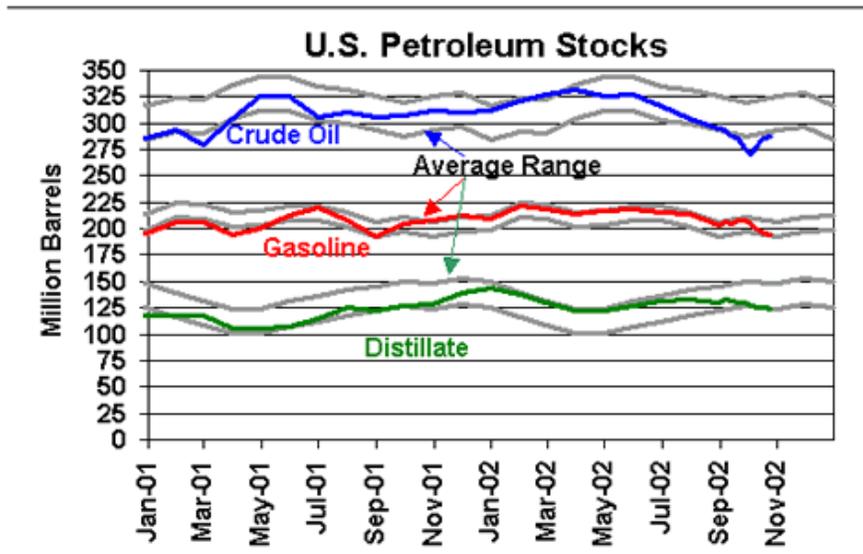
Crude Oil and Oil Products Price Table

Date	WTI Crude Oil		Gasoline		Heating Oil		Kerojet	Propane		EIA Weekly Retail US Average	
	Spot	Futures	Spot	Futures	Spot	Futures	Spot	Spot	Spot	Gasoline	Diesel
	Cushing		NYH		NYH		NYH	Mt. Belvieu	Conway		
	\$/bbl	\$/bbl	cents per gallon		cents per gallon		c/gal	cents per gallon		cents per gallon	
9/17/2002	\$29.08	\$29.08	77.50	77.63	76.85	77.23	81.53	46.50	45.00		
9/18/2002	\$29.57	\$29.48	79.10	79.82	77.90	78.91	82.83	47.57	46.44		
9/19/2002	\$29.49	\$29.50	79.30	80.08	77.85	78.81	82.63	47.57	46.32		
9/20/2002	\$29.65	\$29.61	79.78	81.41	77.45	78.70	82.00	47.88	47.25		
9/23/2002	\$30.85	\$30.71	79.95	84.27	79.00	80.57	83.05	48.75	47.75	139.5	141.7
9/24/2002	\$30.79	\$30.77	80.85	82.92	79.40	80.70	83.53	48.63	47.75		
9/25/2002	\$30.69	\$30.64	80.63	81.69	79.70	80.63	83.68	47.51	46.69		
9/26/2002	\$30.31	\$30.41	78.80	80.81	79.20	80.40	83.10	47.50	46.75		
9/27/2002	\$30.53	\$30.54	80.05	81.43	79.20	80.38	83.20	47.82	46.88		
9/30/2002	\$30.59	\$30.45	79.73	81.35	79.18	80.18	83.06	48.13	47.00	141.3	143.8
10/1/2002	\$30.71	\$30.83	83.03	82.71	81.05	82.04	85.43	48.75	47.75		
10/2/2002	\$30.59	\$30.49	84.53	82.50	80.20	81.35	86.83	48.25	47.44		
10/3/2002	\$29.73	\$29.76	80.25	80.25	77.72	79.43	83.10	47.50	46.25		
10/4/2002	\$29.65	\$29.62	80.10	79.72	79.20	79.19	83.18	47.57	46.00		
10/7/2002	\$29.65	\$29.64	80.80	80.47	78.08	79.16	82.78	47.57	46.25	143.9	146.0
10/8/2002	\$29.56	\$29.48	83.78	82.35	77.55	79.05	83.30	47.26	45.88		
10/9/2002	\$29.31	\$29.35	82.20	82.04	77.71	79.42	83.51	47.32	46.25		
10/10/2002	\$28.96	\$28.97	81.50	80.46	77.10	78.30	83.10	46.69	45.50		
10/11/2002	\$29.36	\$29.37	82.80	82.01	77.88	78.97	83.40	47.25	47.07		
10/14/2002	\$30.06	\$30.03	85.90	84.96	79.85	80.89	85.40	48.25	47.32	144.0	146.1
10/15/2002	\$29.73	\$29.72	84.47	83.99	78.80	79.98	84.35	47.94	46.88		
10/16/2002	\$29.28	\$29.47	84.65	83.93	78.79	79.96	83.64	48.25	47.00		
10/17/2002	\$29.61	\$29.62	85.75	83.98	79.85	80.77	84.05	48.63	47.00		
10/18/2002	\$29.56	\$29.60	85.90	85.17	79.90	80.35	83.25	48.82	47.50		
10/21/2002	\$28.31	\$28.37	80.54	81.03	75.66	76.29	79.49	47.68	46.75	145.8	146.9
10/22/2002	\$27.93	\$27.92	80.93	79.85	75.36	75.78	79.06	47.50	46.63		
10/23/2002	\$28.19	\$28.18	81.40	81.40	75.03	75.67	79.40	48.25	47.69		
10/24/2002	\$27.87	\$28.20	82.23	84.17	74.73	75.97	79.10	48.50	48.32		
10/25/2002	\$27.09	\$27.05	85.45	86.09	72.05	72.76	76.28	47.88	47.94		
10/28/2002	\$27.25	\$27.29	83.60	85.30	71.95	73.08	76.10	47.75	48.00	144.4	145.6
10/29/2002	\$26.81	\$26.86	80.05	82.27	70.55	71.55	74.90	47.75	48.00		
10/30/2002	\$26.85	\$26.81	80.80	82.83	72.55	72.77	76.05	47.88	47.94		
10/31/2002	\$27.18	\$27.22	79.65	86.35	74.50	74.38	77.85	48.25	48.69		
11/1/2002	\$27.04	\$27.13	85.25	76.45	73.90	74.16	76.60	48.38	49.63		
11/4/2002	\$26.89	\$26.95	89.93	77.43	73.08	73.33	75.53	47.88	49.07	144.8	144.2

Source: Spot and futures closing quotes as reported by Reuters News Service, retail prices reported by EIA

U.S. Petroleum Supply

(Thousand Barrels per Day)	Four Weeks Ending		vs. Year Ago	
	10/25/2002	10/25/2001	Diff.	% Diff.
Refinery Activity				
Crude Oil Input	13,999	15,003	-1,004	-6.7%
Operable Capacity	16,800	16,510	290	1.8%
Operable Capacity Utilization (%)	84.4%	92.0%	-7.6%	
Production				
Motor Gasoline	8,207	8,437	-230	-2.7%
Jet Fuel	1,433	1,453	-20	-1.3%
Distillate Fuel Oil	3,389	3,772	-383	-10.1%
Imports				
Crude Oil (incl. SPR)	9,175	9,229	-54	-0.6%
Motor Gasoline	739	724	15	2.1%
Jet Fuel	176	78	98	126.5%
Distillate Fuel Oil	328	262	66	25.1%
Total	11,384	11,442	-58	-0.5%
Exports				
Crude Oil	25	11	14	136.5%
Products	928	918	10	1.1%
Total	953	929	24	2.6%
Products Supplied				
Motor Gasoline	8,915	8,641	274	3.2%
Jet Fuel	1,588	1,564	24	1.5%
Distillate Fuel Oil	3,796	3,850	-54	-1.4%
Total	19,387	19,709	-322	-1.6%
vs. Year Ago				
Stocks (Million Barrels)	10/25/2002	10/25/2001	Diff.	% Diff.
Crude Oil (excl. SPR)	287.1	312.3	-25.2	-8.1%
Motor Gasoline	194.3	207.3	-13.0	-6.3%
Jet Fuel	40.4	40.9	-0.5	-1.2%
Distillate Fuel Oil	123.8	128.5	-4.7	-3.7%
Total (excl. SPR)	978.9	1,032.3	-53.4	-5.2%



Source: Energy Information Administration, Weekly Petroleum Status Report, Petroleum Supply Monthly.

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World Oil Market Highlights

(updated October 22, 2002)

According to fourth quarter 2002 estimates, the world (excluding Iraq) holds around 5 million barrels per day of excess oil production capacity that could be brought online, almost all of which lies in OPEC countries.

OPEC Crude Oil Production ¹ (Thousand barrels per day)					
	3Q 2002 Production	4Q 2002 Production	1/01/02 Quota ²	2002 Production Capacity ³	4Q Surplus Capacity ³
Algeria	903	950	693	1,100	150
Indonesia	1,110	1,095	1,125	1,200	105
Iran	3,390	3,390	3,186	3,850	460
Kuwait ⁴	1,926	1,960	1,741	2,400	440
Libya	1,330	1,330	1,162	1,400	70
Nigeria	1,933	2,033	1,787	2,300	267
Qatar	640	640	562	850	170
Saudi Arabia ⁴	7,749	7,800	7,053	10,000-10,500	2,200-2,700
UAE ⁶	1,980	1,980	1,894	2,600	620
Venezuela ⁷	2,746	2,800	2,497	2,900	100
OPEC 10 Crude Oil Total	23,708	23,978	21,700	28,600-29,100⁵	4,622-5,122⁵
Iraq ⁸	1,742	1,765	N/A	3,050	1,285

OPEC Crude Oil Total	25,450	25,743	N/A	31,650-32,150⁵	5,907-6,407⁵
Other Liquids ⁹	2,751	2,751	N/A		
Total OPEC Production	28,201	28,495	N/A		

NA: Not Applicable

¹Crude oil does not include lease condensate or natural gas liquids.

²Quotas are based on crude oil production only.

³Maximum sustainable production capacity, defined as the maximum amount of production that: 1) could be brought online within a period of 30 days; and 2) sustained for at least 90 days.

⁴Kuwaiti and Saudi Arabian figures each include half of the production from the Neutral Zone between the two countries. Saudi Arabian production also includes oil produced from its offshore Abu Safa field on behalf of Bahrain.

⁵Saudi Arabia is the only country with the capability to further increase its capacity significantly within 90 days. Saudi Arabia can increase its sustainable production capacity to 10 million barrels per day within 30 days and to 10.5 million barrels per day within 90 days. As a result, the estimates for Saudi Arabia are as shown as a range, with the lower figure using the 30 days' definition and the upper end reflecting Saudi Arabia's 90 days' capability. OPEC's surplus capacity estimates are also shown as a range for this reason.

⁶The UAE is a federation of seven emirates. The quota applies only to the emirate of Abu Dhabi, which controls the vast majority of the UAE's economic and resource wealth.

⁷Venezuelan capacity and production numbers exclude extra heavy crude oil used to produce Orimulsion.

⁸Iraqi oil exports are approved by the United Nations under the oil-for-food program for Iraq established by Security Council Resolution 986 (April 1995) and subsequent resolutions. As a result, Iraqi production and exports have not been a part of any recent OPEC agreements. Resolution 986 limited the sale of Iraqi crude oil over six-month periods to specified dollar amounts. However, the Security Council voted to remove any limits on the amount of oil Iraq could export in December 1999.

⁹Other liquids include lease condensate, natural gas liquids, and other liquids including volume gains from refinery processing.

Major Sources of U.S. Petroleum Imports, Jan.-August 2002*

(all volumes in million barrels per day)

	Total Oil Imports	Crude Oil Imports	Petroleum Product Imports
Canada	1.89	1.39	0.50
Saudi Arabia	1.51	1.48	0.03
Mexico	1.50	1.46	0.04
Venezuela	1.39	1.19	0.20
Nigeria	0.60	0.57	0.03
Iraq	0.52	0.52	0.00
United Kingdom	0.46	0.39	0.07
Norway	0.41	0.36	0.05
Angola	0.32	0.31	0.01

Algeria	0.28	0.03	0.25
Total Imports	11.30	9.01	2.29

* Table includes all countries from which the U.S. imported more than 300,000 barrels per day in Jan.-August 2002.

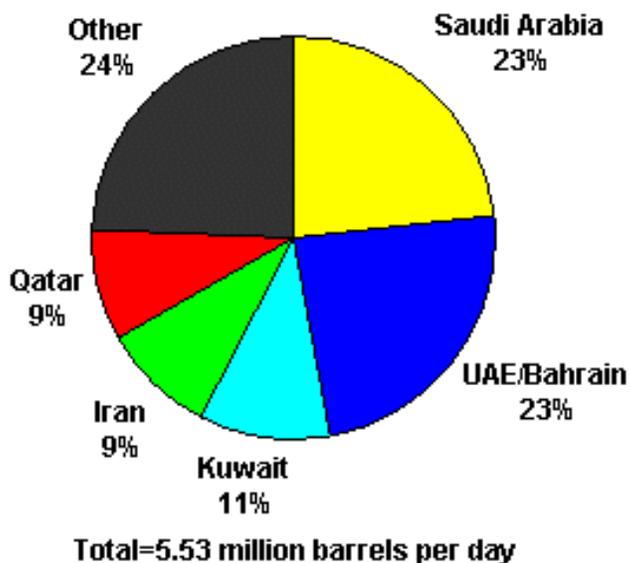
Top World Oil Net Exporters, Jan.-May 2002*		
	Country	Net Exports (million barrels per day)
1)	Saudi Arabia	6.64
2)	Russia	4.81
3)	Norway	3.18
4)	Iran	2.43
5)	Venezuela	2.34
6)	United Arab Emirates	1.92
7)	Nigeria	1.86
8)	Iraq	1.65
9)	Kuwait	1.60
10)	Mexico	1.67
11)	Algeria	1.21
12)	Libya	1.17

*Table includes all countries with net exports exceeding 1 million barrels per day in Jan.-May 2002.

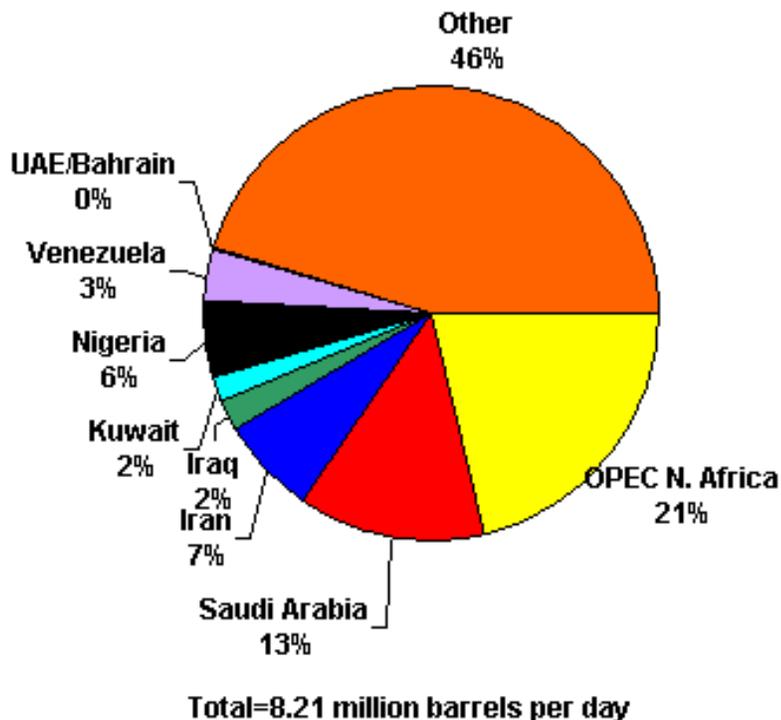
During the first five months of 2002, about half of U.S. crude oil imports came from the Western Hemisphere (17% from South America, 16% from Mexico, 15% from Canada, 2% from the Caribbean), while 27% came from the Persian Gulf region (17% from Saudi Arabia, 8% from Iraq, 2% from Kuwait).

In general, OECD Europe depends far more heavily on the Persian Gulf and North Africa for oil imports than the United States. During the first quarter of 2002, about 25% of OECD Europe's net oil imports came from the Persian Gulf (mainly Saudi Arabia, Iran, Iraq, and Kuwait), around 28% from Africa (mainly Libya, Algeria, and Nigeria), and much of the remainder from Russia. Japan receives over three-quarters of its oil supplies from the Persian Gulf (mainly the UAE, Saudi Arabia, Kuwait, Iran, and Qatar) with the remainder coming from Indonesia, China, and other sources.

Japanese Net Oil Imports by Country, 1Q 2002



OECD European Net Oil Imports by Country, 1Q 2002



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Latest U.S. Weekly Natural Gas Information

(updated November 5, 2002)

[Industry/Market Developments](#)

EIA Issues Information of Particular Interest to Residential Natural Gas Customers: On Friday, November 1, the Energy Information Administration (EIA) posted an information product on its website titled: [Residential Natural Gas Prices: Information for Consumers](#). This brochure describes how natural gas is supplied to individual households, and shows the various components that are included in the price a residential customer pays for natural gas. It touches on natural gas industry restructuring at the State level, explaining how this on-going process can affect residential consumers and why they should be interested in it. In addition, the brochure summarizes EIA's projections for the current heating season, including the average heating-season price and likely total cost over the winter for natural gas for the typical residential consumer. The brochure also suggests ways for consumers to save on their natural gas bills.

The Federal Energy Regulatory Commission (FERC) Presents Assessment of the Midwestern Energy Infrastructure: FERC's Office of Market Oversight & Investigations presented its assessment of the Midwestern energy infrastructure on Wednesday, October 30. In the report titled, *Midwestern Energy Infrastructure Assessment*, FERC staff found that adequate pipeline and storage capacity exists to meet market needs in the 15-state Midwestern region, which encompasses the West and East North Central U.S. Census regions, and Oklahoma, Kentucky, and West Virginia. Of the 5.8 Tcf of natural gas consumed in the region during 2000, 2.8 Tcf was produced indigenously, 1.3 Tcf was imported from Canada, and the remainder was shipped principally from states in the Southeast and West.. According to FERC staff, total pipeline capacity in the region is roughly 33.8 Bcf per day. Since 2001, five major projects have been certificated, adding 1,914 MMcf per day. One of these projects, Trailblazer, is already in operation, while the others are in various stages of construction. Another three major projects, adding 940 MMcf per day of projected capacity, are pending before the Commission. In addition, six major projects are "on the horizon," which could add up to 5,609 MMcf per day of transportation capacity and 480 MMcf per day of storage deliverability. These additions in pipeline capacity should help meet the increasing demand from the electric generating sector, which is the fastest growing sector in the region. Gas-fired electric generation capacity accounts for 45,000 megawatts (MW) or nearly 18 percent of the electric generation in the region. Another 39,240 MW of new gas-fired generation capacity is planned through the year 2004, nearly 91 percent of new capacity additions for the period.

[Storage](#)

Working gas storage levels reached 3,172 Bcf for the week ended Friday, October 25, according to EIA's Weekly Natural Gas Storage Report. Current inventories exceed the 5-year (1997-2001) average by 6.3 percent, down over a percentage point at the national level from last week. Implied net injections for the report week were 11 Bcf, which is nearly 73 percent lower than the 5-year average and about 66 percent less than last year's injection for this week. Early near-winter conditions boosted heating demand, likely contributing to lower-than-average net injections.

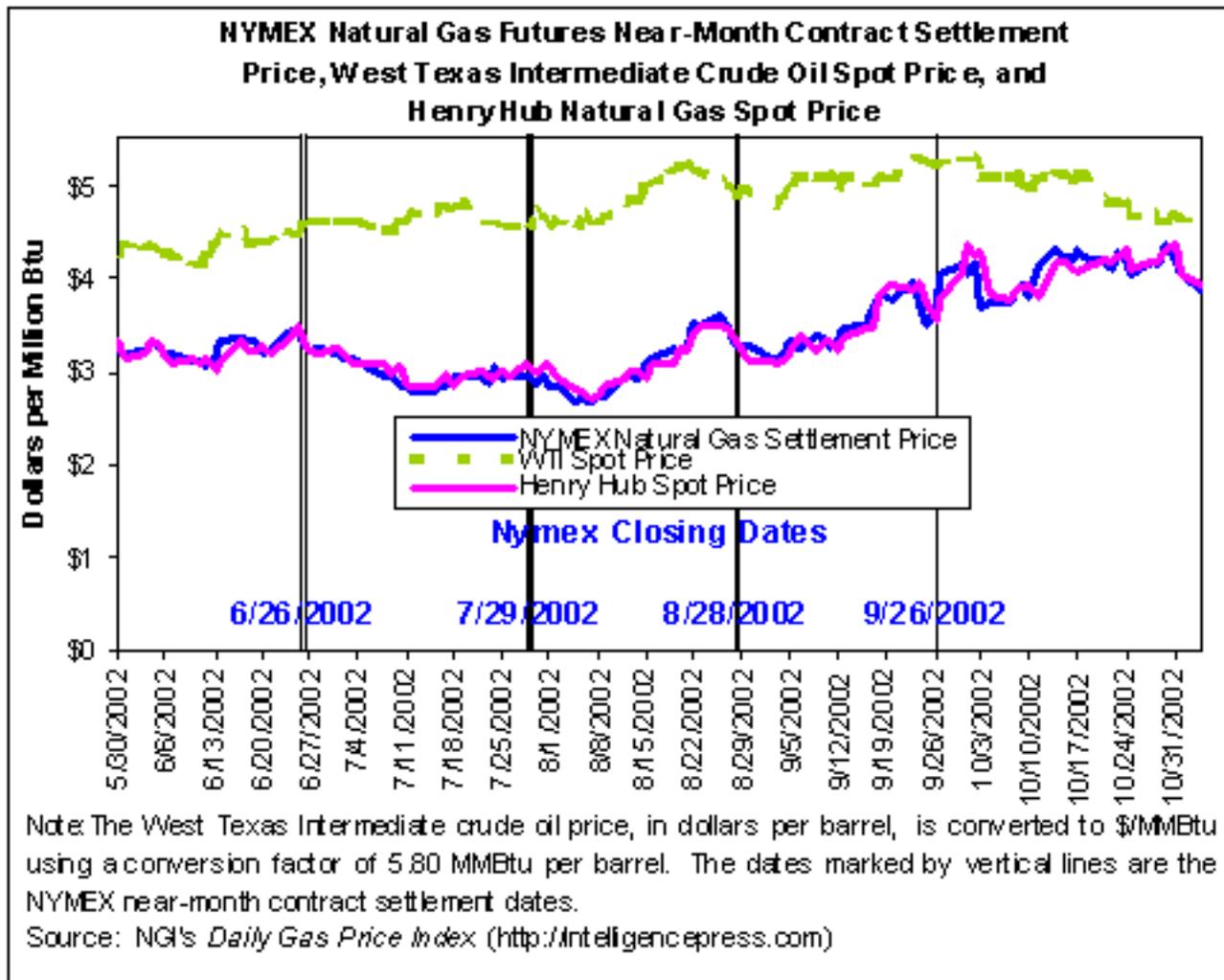
All Volumes in Bcf	Current Stocks 10/25/2002	Estimated Prior 5-Year (1997-2001) Average	Percent Difference from 5 Year Average	Implied Net Change from Last Week	One-Week Prior Stocks 10/18/2002
East Region	1,867	1,829	2.1%	8	1,859
West Region	416	360	15.6%	1	415
Producing Region	889	793	12.1%	2	887
Total Lower 48	3,172	2,983	6.3%	11	3,161

Source: Energy Information Administration: Form EIA-912, "Weekly Underground Natural Gas Storage Report," and the Historical Weekly Storage Estimates Database. Column and/or row sums may not equal totals due to independent rounding.

Prices:

Spot prices at most major market locations moved down between 10 to 20 cents per MMBtu on Monday (11/04/02). At the Henry Hub, natural gas traded below \$4.00 per MMBtu for the first time in 4 weeks as prices averaged \$3.94 yesterday (Monday). Contributing to this price decrease were the moderating temperatures in the Midwest and the Northeast along with recent price declines at the NYMEX futures market. Since last Wednesday (10/30/02), citygate prices at Chicago and New York have moved down \$0.57 and \$0.82 per MMBtu, respectively. Prices in California have also declined and ended trading yesterday with a composite average price of \$3.93 per MMBtu--down \$0.32 from last Wednesday's level.

On the NYMEX futures market, the contract for December delivery settled yesterday (11/04/02) at \$3.863 per MMBtu. This is almost \$0.53 below the level on its first day of trading as the near-month contract on Wednesday, October 30, 2002.



<i>Trade Date (All prices in \$ per MMBtu)</i>	California Composite Average Price*	Henry Hub	New York City	Chicago	NYMEX futures contract-November delivery	NYMEX futures contract-December delivery	NYMEX futures contract-January delivery
10/8/2002	3.46	3.86	4.21	3.87	3.862	4.120	4.243
10/9/2002	3.48	3.91	4.24	3.94	3.918	4.158	4.265
10/10/2002	3.43	3.94	4.24	3.94	3.828	4.055	4.153
10/11/2002	3.23	3.79	4.05	3.81	4.146	4.336	4.396
10/14/2002	3.82	4.19	4.45	4.23	4.303	4.471	4.521
10/15/2002	3.87	4.20	4.53	4.25	4.247	4.440	4.505
10/16/2002	3.66	4.10	4.39	4.18	4.227	4.422	4.492
10/17/2002	3.68	4.09	4.39	4.19	4.299	4.507	4.572
10/18/2002	3.72	4.11	4.41	4.25	4.239	4.462	4.542
10/21/2002	3.93	4.23	4.59	4.33	4.157	4.378	4.460
10/22/2002	4.00	4.20	4.69	4.34	4.110	4.315	4.403
10/23/2002	4.04	4.24	4.81	4.38	4.260	4.440	4.510
10/24/2002	4.14	4.31	4.85	4.46	4.133	4.300	4.385
10/25/2002	3.97	4.11	4.57	4.26	4.028	4.188	4.278
10/28/2002	4.06	4.17	4.80	4.34	4.176	4.329	4.409
10/29/2002	4.14	4.19	4.95	4.39	4.126	4.261	4.346
10/30/2002	4.25	4.33	5.16	4.48	Expired	4.389	4.457
10/31/2002	4.33	4.38	4.98	4.41	Expired	4.156	4.256
11/1/2002	4.07	4.06	4.52	4.08	Expired	4.060	4.165
11/4/2002	3.93	3.94	4.34	3.91	Expired	3.863	3.983

* Average of NGI's reported average prices for: Malin, PG & E citygate, and Southern California Border Average.

Source: NGI's Daily Gas Price Index (<http://intelligencepress.com>)

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Definitions

Petroleum

WTI – West Texas Intermediate (for the purposes of this table, prices provided are near month futures price) Cushing OK.

Bbl – Barrel (42 gallons).

C's – cents.

Natural Gas

Henry Hub – A pipeline hub on the Louisiana Gulf coast. It is the delivery point for the natural gas futures contract on the New York Mercantile Exchange (NYMEX).

Electricity

COB – average price of electricity traded at the California-Oregon and Nevada-Oregon border.

Palo Verde - average price of electricity traded at Palo Verde and West Wing Arizona.

Average - average price of electricity traded at all locations.

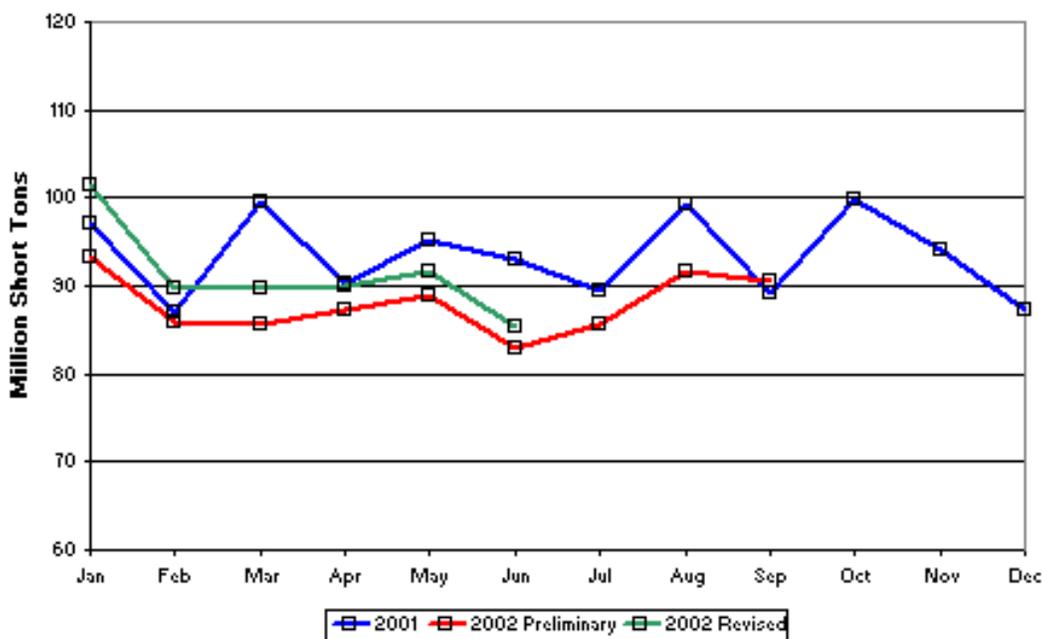
Latest U.S. Coal Information

(updated November 5, 2002)

Coal Production

For the week ended October 19, railcar loadings of coal were 0.7% lower while national coal production was 0.1% above year-ago levels. Year-to-date, estimated western U.S. coal production is 0.5% below the levels of a year ago, whereas eastern U.S. coal production is estimated to be 5.7% below last year's level. The revised production for the first 9 months of 2002 is 845.6 million short tons (mst), 2.9% lower than the 840.0 mst in the first 9 months of 2001. The revised estimate incorporates Mine Safety and Health Administration coal production survey data for the second quarter 2002.

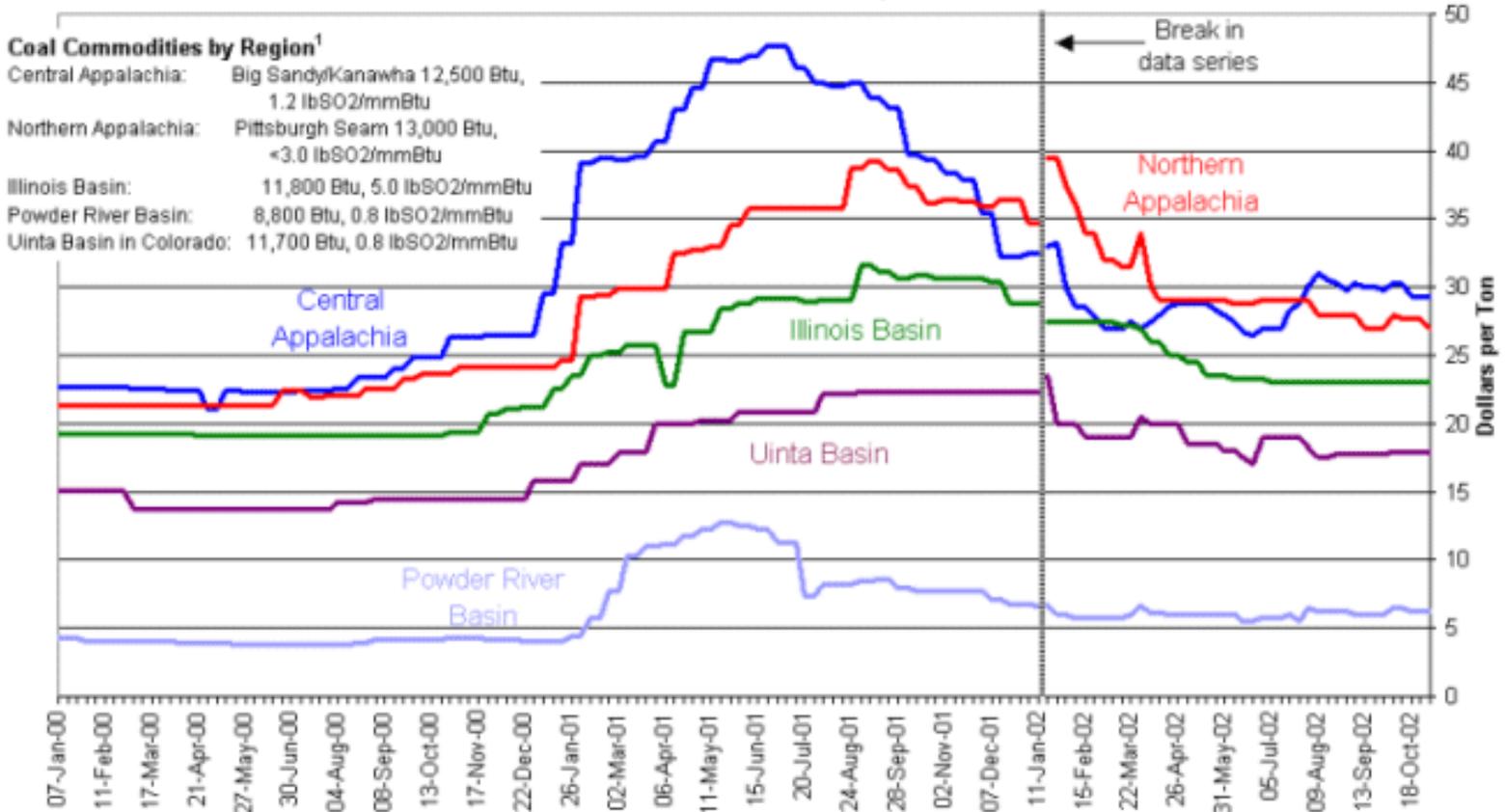
U.S. Monthly Coal Production



Coal Prices

The average spot coal prices tracked by EIA, after strengthening slightly for the week ended October 4, have stalled at static levels (graph below). Coal prices show little movement and lack clear direction as markets-both spot and over-the-counter-show low interest and little activity. Compared to peak prices in summer 2001, Central and Northern Appalachian coal prices are down by about \$18.50 and \$12.00 per short ton, respectively. Compared to the previous floor in the summer of 2000, prior to the 2001 escalation, the latest indexed spot prices of \$29.25 per short ton for Central Appalachian and \$27.00 per short ton for Northern Appalachian coal are higher by 31% and 27% respectively. Other prices also remain higher than the summer 2000 base: by 30% for the Uinta Basin, 20% for the Illinois Basin, and 67% for the Powder River Basin.

Average Weekly Coal Commodity Spot Prices Week Ended November 1, 2002



¹Prior to January 11, 2002, EIA averaged 12-month "forward" spot prices for several coal specifications; after that date, coal prices shown are for a relatively high-Btu coal selected in each region, for delivery in the "prompt" quarter. The "prompt quarter" is the next calendar quarter, with quarters shifting forward after the 15th of the month preceding each quarter's end.
Source: with permission, selected from listed prices in Platts Coal Outlook, "Weekly Price Survey"

Over-the-counter (OTC) trading volumes on the [NYMEX](#) throughout the months of September and October were the lowest since the market initiated trade in coal July 2001. The past week saw negligible activity-15 trades for the week. The settled price for near-month deliveries continues around \$28 per ton, prices for Central Appalachian coal that major producers consider untenable. NYMEX prices for early 2003 remain below \$29, with offers rising to \$30 starting in July 2003.

Market Trends

At the American Coal Council's 20th annual Coal Market Strategies Conference last week, coal market analysts emphasized the continuing impact of a host of negative factors on coal markets. It was generally agreed that the above normal coal stockpiles at power plants and a number of economically negative issues will keep coal prices and purchases low for the rest of 2002, even if the weather becomes colder than normal. Among the problems depressing the coal industry are some stubborn broader problems such as: the overall economy, failure or bankruptcies among last year's ebullient independent power producers (IPPs) and online energy traders, and post-Enron credit problems for energy producers and for new or innovative coal-based generation.

In addition, the rush by IPPs to build new natural gas-fired units has resulted in a glut of shelved gas-fired generating equipment available at bargain prices. This will make new coal-fired plants—normally larger, more capital-intensive, and requiring more lead time than gas-fired plants to permit and build—less attractive for the next year or

more and even harder to finance. Meanwhile, in the wings, preliminary estimates of probable costs of mercury abatement regulations being considered by the Environmental Protection Agency, are projected to be high for coal. Since final standards have not been promulgated, estimates are speculative, but could add \$2.6 million per year on the low end to \$10.6 million per year on the high end to annualized costs for a 250 megawatt coal-fired power plant. Because of the nature of the mercury and other minerals typically associated with western coal deposits, the higher costs are expected for plants burning western subbituminous coals (presentation by Michael Durham, ADA Environmental Solutions, October 16).

Peabody Energy COO Richard Whiting commented that his company has moved away from the philosophy of producing as much coal as possible at all times to tailoring production to meet demand. That is, they will be return-on-investment-driven rather than cash-flow driven. In the past few years companies like Peabody and Consol used IPOs to get the money needed to pay-down debt, so now they are more focused on profitability. Mr. Whiting also commented that productivity gains will inevitably flatten out. He said that Peabody continues to push mining equipment vendors for better technology, but he is concerned about the lack of capital investment in the industry and the low rates of return.

John Dean of JD Consulting displayed a graph showing productivity at Powder River Basin (PRB) high Btu mines (8800 Btu/lb) peaking in 1998 and declining since. This would reverse the trend, as PRB productivity had been increasing for many years. A representative of Arch coal was pessimistic about the productivity outlook in both the East and West. Key factors are higher stripping ratios in the PRB as mines progress, thinner seams in the East, tighter environmental restrictions in the East, and the introduction of inexperienced new miners in the PRB. The one area he was optimistic about was northern Appalachia, where he believes there is significant opportunity to increase output at the longwall mines by upgrading the conveyor systems that move coal out of the mines.

Would-be buyers have found coal producers generally unwilling to commit beyond existing contracts at current prices. With some eastern mines still off line, supplies of eastern compliance coal have reportedly been tight and most buyers, with still a stockpile cushion, have delayed buys. Citing the high capital costs of opening new coal mines, Consol Energy disclosed on September 24 that the company does not intend to invest in new mines until contract coal prices in Appalachia go above \$30 per short ton and buyers are willing to commit to contracts longer than 2 or 3 years (Energy Argus Coal Daily, September 26). Meanwhile, stock market prices for energy trading companies and some utilities took heavy losses on October 8 and 9 as investors reacted to a new wave of bankruptcy announcements and credit downgrades. As noted above, one effect of these trends is a tightening of new capital, credit, and short-term cash for expansions as well as coal purchases and operating expenses.

For the time being, coal producers continue to keep some capacity offline to stabilize prices, while coal-consuming power plants plan for continuing slack demand. The outlook for delayed growth in electricity demand is reflected in EIA's figures for electricity generation capacity additions: 37.0 gigawatts delayed past 2002 and 5.5 gigawatts canceled (<http://www.eia.doe.gov/cneaf/electricity/page/capacity/capacity.html>). While most of the planned capacity was natural gas-fired, coal-fired plants do not show up because they are longer-term projects.

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Latest U.S. Electricity Information

(updated November 5, 2002)

Selected Wholesale Electricity Prices: Electricity prices in the Western United States decreased over the past two trading days as a return to warmer weather caused customers to reduce their demand. At COB, prices fell \$6.39 per megawatthour between October 31 and November 4. At Mid-Columbia, a benchmark for the Northwest, prices also decreased \$7.34 per megawatthour during the same period.

In the Midwest, higher forecasted temperatures were expected to decrease demand and drop prices for October 31 and November 1. Prices at Cinergy did decrease 40% from \$38.94 per megawatthour on October 30 to \$23.25 per megawatthour on November 1. However, the lingering cold temperatures kept demand levels high, and prices increased on November 4.

In the Southeast, electricity prices dropped on October 31 and November 1 as warmer temperatures decreased customer demand. Despite the predictions of warmer weather, the cold weather persisted and prices increased on November 4. Prices did decrease \$7.55 per megawatthour from October 29 to November 1, and increased slightly by \$0.19 on November 4.

Northeast spot electricity prices decreased as warmer weather was expected, and therefore lower demand levels were forecasted. At PJM West, prices dropped \$8.11 per megawatthour since October 30. For New England, prices were volatile over the past three trading days, but did decrease to \$49.00 per megawatthour on November 4. During the same time period, New York City's prices remained steady at \$57.50 per megawatthour.

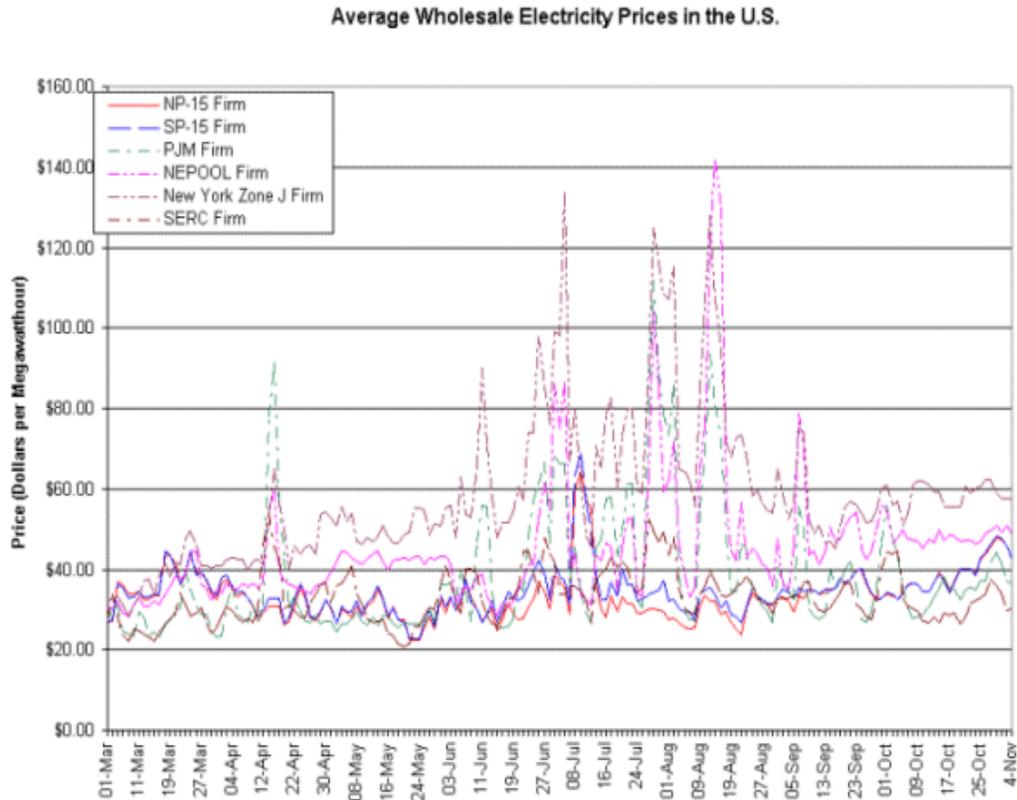
Over the past seven days, the average price at all trading centers ranged between \$39.52 and \$45.90 per megawatthour.

U.S. Regional Electricity Prices at Major Trading Centers (Dollars per megawatthour)

Trading Centers	Date							Price Range		
	10/25/02	10/28/02	10/29/02	10/30/02	10/31/02	11/1/02	11/4/02	Max	Min	Average
COB	37.92	40.13	41.75	45.50	45.54	42.75	39.15	45.54	37.92	41.82
Palo Verde	40.00	39.48	42.20	44.93	42.46	40.42	37.31	44.93	37.31	40.97
Mid-Columbia	33.50	36.53	38.86	42.87	43.55	40.18	36.21	43.55	33.50	38.81
Mead/Marketplace	40.56	42.50	44.00	46.25	45.00	43.85	40.20	46.25	40.20	43.19
4 Corners	39.81	40.57	43.41	46.54	44.50	40.92	39.83	46.54	39.81	42.23
NP 15	42.65	43.71	45.59	47.75	47.32	45.72	42.60	47.75	42.60	45.05
SP 15	42.89	44.09	46.32	48.13	47.37	45.78	42.53	48.13	42.53	45.30
PJM West	37.09	37.29	41.75	44.20	41.13	37.28	36.09	44.20	36.09	39.26
NEPOOL	46.88	49.00	49.50	50.75	49.25	51.00	49.00	51.00	46.88	49.34
New York Zone J	60.50	62.25	62.25	59.00	57.50	57.50	57.50	62.25	57.50	59.50
Cinergy	29.46	30.25	35.63	38.94	33.19	23.25	23.88	38.94	23.25	30.66
SERC	32.92	33.92	37.33	35.91	33.87	29.78	29.97	37.33	29.78	33.39
Average Price	40.35	41.64	44.05	45.90	44.22	41.54	39.52	45.90	39.52	42.46

Sources: COB, Palo Verde, Mid-Columbia, Mead/Market Place, Four Corners, NP-15, SP-15, PJM-West, NEPOOL, New York Zone J, Cinergy, and SERC trading centers. Used with permission from Bloomberg L.P. (www.bloomberg.com).

COB:	Average price of electricity traded at the California-Oregon and Nevada-Oregon Borders.
Palo Verde:	Average price of electricity traded at Palo Verde and the West Wing, Arizona.
Mid-Columbia:	Average price of electricity traded at Mid-Columbia.
Mead/Market Place:	Average price of electricity traded at Mead Market Place, McCullough and Eldorado.
Four Corners:	Average price of electricity traded at Four Corners, Shiprock, and San Juan, New Mexico.
NP-15:	Average price of electricity traded at NP-15.
SP-15:	Average price of electricity traded at SP-15.
PJM-West:	Average price of electricity traded at PJM Western hub.
NEPOOL	Average price of electricity traded at Nepool.
New York Zone J:	Average price of electricity traded at the New York Zone J - New York City.
Cinergy:	Average price of electricity traded into the Cinergy control area.
SERC:	Average price of electricity traded into the Southeastern Electric Reliability Council.



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